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“As a mainstay of the Sri Lankan economy, Aitken Spence will seek further growth opportunities within the local economy, particularly in the tourism, logistics, agriculture and IT sectors, while consolidating our operations overseas during the coming year.”

J.M.S. Brito
Managing Director

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From good to great. Managing Director's Review

2010/11 was indeed a good year for Aitken Spence. The benefits of the global economic turnaround were amplified by the positive sentiment in post-war Sri Lanka, resulting in a year during which the Group was justly rewarded for its vision and its spirit of determination.

The Group's net profit before tax increased from Rs. 3.4 billion to Rs. 3.8 billion a growth of 13.8% while net profit attributable to shareholders was Rs. 2.5 billion, an increase of 23.1% over the Rs. 2.1 billion recorded in 2010.

The Aitken Spence share closed the year at Rs. 162.30. The Company's shares were split during the year to facilitate more liquidity and better representation of the Company's value. The subdivision of shares was on the basis of one ordinary share into fifteen ordinary shares. I am happy to announce that total shareholder return which reflects the total returns received by a shareholder for the year was a positive of 78.3% for the financial year 2010/2011.

There is a positive sentiment and increased investor confidence in the Sri Lankan economy, which was strengthened by the improvements witnessed in the global economy. These factors created the right environment for many of the sectors to perform exceptionally well in 2010/11, having fully emerged from the shadow of a prolonged war. Sri Lanka's profile as a travel destination also grew with the country featuring on several must-visit lists during the year. Many global brands and companies have been expressing interest in the Sri Lankan market and their entry over the next few years could transform the business landscape, setting new global benchmarks and standards of excellence.

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and IT sectors, while consolidating our operations overseas during the coming year. The Group's strategy of diversification with our core business will continue, as this has paid rich dividends over the years.

Tourism

The expected tourism boom became a reality in 2010/11 and Aitken Spence was in the fortunate position of having fully refurbished properties to take advantage of the substantial growth. The three showpiece Heritance properties in particular performed outstandingly well, maintaining above average occupancies throughout the year.

The Group's resort portfolio will be expanded in the short term through several new expansions; Heritance Ayurveda Mahagedara will be opened next month, while construction has begun on the Six Senses property in Ahungalle, targeted to launch in 2013. The Golden Sun Resort Kalutara is now closed for refurbishment until December 2011 and this development will see the resort being uplifted to a four-star property. Construction of an additional 100 rooms will commence in mid 2011 to increase the total room inventory of this property to 200. Browns Beach Hotel, Negombo is currently being demolished with plans afoot for a brand new 200-room luxury resort. In a bid to cater to the high-end MICE (meetings, incentives, conferences & exhibitions) segment, a state-of-the-art conference hall will be constructed during the year over the Dambulla wing of Heritance Kandalama. Plans are also being drawn up to develop 100 acres of beach front property in Nilaveli, with

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the aim of harnessing the property's maximum value. In April 2011 the Group acquired the ownership of Hilltop Hotel, Kandy in which previously the Group had only a minority stake.

The Group welcomes the improved investor confidence in Sri Lanka which has spurred a number of international hotel chains to invest in both city and resort properties. The inclusion of international names such as Six Senses and Shangri-la in the Sri Lankan arena will no doubt drive the value of the destination higher and also create healthy competition for existing players.

In the Maldives, the Group's resorts enjoyed a stable year during which they consolidated their position as established players in the market. Occupancies remain high and the Group is very positive about Maldives being a great tourist destination. Although the present political situation in the Maldives remains somewhat uncertain, Aitken Spence is confident that these problems will be settled shortly.

The managed hotels in India have had a stable year but returned a slight operational loss while Oman, where we manage five properties, has experienced falling occupancies towards the latter part of the year following the political instability in the Middle East, a trend that may continue into the first two quarters of the next year.

The destination management business posted robust growth as tour operators increased volumes, and traditional markets as well as new markets responded positively to the new era of peace. The segment was somewhat affected by the increase in Sri Lankan hotel rates and as major tour operators were disgruntled with the minimum rates imposed on Colombo hotels at short notice.

It is more beneficial to the industry in the long term that room rates are governed by supply and demand – as in competitor markets in the region - and not regulated by government authorities. During the year, the industry also faced some uncertainty from the now-delayed proposal to suspend the visa-on-arrival facility for tourists and it is hoped that the eventual decision will be beneficial to the country.

As a Group that operates many hotels in Sri Lanka as well as being the country's leader in destination management, Aitken Spence believes it is imperative that infrastructure and mobility is improved to grow tourism to its true potential. Furthermore it is important to create a cadre of skilled workers for the leisure sector, as the dearth of qualified personnel will impose a considerable burden on the tourism goals of the future.

The Singapore Airlines GSA, a partnership that dates back almost forty years, turned around during the year as higher occupancies generated more revenue. The Kingfisher Airlines operation continued to struggle but indications are that it will experience a positive year in 2011/12. Kingfisher has proposed the addition of three more South Indian destinations to its present schedule of one flight per day from Chennai which augurs well for its operations.

Shipping and Cargo Logistics

The highlight for the sector during the year was the finalisation of agreements with China Merchants Holdings (International) Company Ltd to design, build and operate the South Container Terminal at the Port of Colombo. During the third quarter, the consortium was awarded a Letter of Intent by the Government of Sri Lanka to build, operate and transfer (BOT) the Colombo South Container Terminal, which is regarded as the single largest ever

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foreign direct investment in the country. Site investigation work is now underway and it is anticipated that the first phase of the project will be ready for operation in 2013.

The maritime segment continued to expand its operations overseas, with its solid reputation for its capabilities generating new contracts in the African continent for port efficiency enhancement projects.

The integrated logistics segment too recorded an improved performance, despite operating in an intensely competitive environment and being affected by a cutback in the transport division as a result of the curtailment of generation at the Group’s power stations. During the year the Company acquired Logilink (Pvt) Ltd, a container freight station operation with a specialised solution for the garment industry which has enabled the Group to service several key apparel sector clients. This investment is expected to bring in noteworthy returns in the coming year.

The freight forwarding segment, and in particular the courier division, enjoyed a profitable year as economic activity accelerated and business continued to thrive in the North and East, where the company specialises in the provision of logistic solutions.

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indicators are of a buoyant year ahead for the cargo logistics industry, as it grows in tandem with the economy.

The Group’s strategic partnership with the country’s largest maritime education and training facility, Colombo International Nautical & Engineering College (CINEC) is progressing well and it hopes to further expand its activities in the field of education in the future.

Strategic Investments

The power segment performed well in 2010/11, although heavy periods of rain led to the curtailment of generation at all three plants in Horana, Matara and Embilipitiya. The two power purchase agreements for the plants in Matara and Horana are due to terminate in March and December 2012, and it is hoped that the terms of these contracts can be extended by offering the government an attractive tariff from these two plants. The segment also plans to commence two renewable energy projects in the near future – a 2.5MW hydropower plant in Matale and a 3MW wind power plant in Ambewela.

It must be noted that the Company is disappointed that the government policy of awarding power projects to the independent power producers has been suspended. The resultant non-availability of new power projects in Sri Lanka has seen the segment seeking growth avenues by aggressively tendering for projects in the region.

The Elpitiya Plantations Group posted attractive returns this year owing to the high price of rubber and the good performance of oil palm. With the healthy gains posted by the oil palm sector, the Company intends to expand its palm oil plantations to harness the growth opportunities available in the industry. During the year, the Group undertook a successful rights issue to restructure the

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balance sheet of Elpitiya Plantations. In keeping with our policy of owning companies in which we have control of management, we divested our stake in Talawakelle Tea Estates PLC., via the plantation management company.

The printing segment consolidated its position during the year, by enhancing its marketing activities and concentrating on high end printing projects as a new avenue of business. The segment is investing in a state-of-the-art facility in Mawaramandiya which would be operational by the end of this calendar year. This would be the most modern printing complex in Sri Lanka.

It is heartening to note that the apparel sector has begun to post continuous profits. The anticipated negative impact of the withdrawal of GSP Plus did not have an effect on the Group as European customers continued with their orders. The Sri Lankan garment industry was able to capitalise on its positive reputation, benefit from uncertainties in Egypt, the higher costs of labour in China and compliance related issues in Bangladesh.

Services

MML Money Transfer (Pvt) Limited posted a reasonable performance during the year, with considerable growth in volumes despite increasingly stiff competition. The prospects for the segment remain strong and its plans to undertake promotional activities at origin countries should pay off in the coming year.

As in previous years, the operations and maintenance services provided to the power generation segments delivered cost benefits to the Group although hampered by the drop in generation at the power plants. The segment is pursuing similar O&M contracts overseas to utilise the

experience gained through its operations in Sri Lanka, to improve efficiency and reliability of the power plants.

The OTIS elevator agency also had an encouraging year, and this trend is set to grow with the boom in construction of small and medium scale projects across the country.

The Lloyds insurance agency showed steady growth as a result of being able to exploit opportunities in the North and East. The year also saw the advent of a new subsidiary Calspence Technologies, a joint venture with California Software Company Limited. The joint venture will enable Aitken Spence to capitalise on its internal skill base by providing system integration and IT solutions to third parties.

The financial shared services centre today encompasses a large portion of the Group's back office operations, including those overseas, and the synergies of this move have been tangible. The centralised structure has automatically strengthened the quality, relevance and nature of management information and allowed for better focus on subsidiaries at management level. Encouraged by its successful transition to shared services and the expertise gained therein, the Company will seek expansion through outsourcing contracts from companies overseas.

The Group continues to modernise its IT infrastructure and speed up automation and technology. Priority is being given to the IT strategic plan geared towards creating a paperless office, an improved management system and a disaster recovery plan.

The Aitken Spence Team now numbers over five thousand, a group of skilled and qualified men and women whose can-do spirit and endurance have driven the results you see in this report. It is pertinent to note that the Group has

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maintained its policy against downsizing throughout the difficult times and has taken every effort to boost employee morale and encourage efficiency. The employees of the Group have shown anxiety and apprehension regarding the proposed private sector pension scheme. It is hoped that the government would address the issues and concerns raised by the private sector regarding the proposed private sector pension scheme prior to its implementation. Further discussion and thought would need to be given to the economic and financial viability including the sustainability of the scheme for the future.

The Group is firmly committed to integrating principles of sustainability into its business practices and in this respect, the integrated sustainability policy introduced during the previous financial year has been a pivotal factor. The policy has been communicated to the entire staff and each subsidiary is now in the process of implementing strategic differentiators which transform into competitive advantages, which can be aligned with global sustainability targets. Details of this process and of the Group’s sustainability practices can be found in the Sustainability Report.

Appreciations

The Board of Directors has been a source of immense strength during the year, providing vision and guidance to take the Company forward in an increasingly competitive environment. I extend my appreciation to my colleagues on the Board of Directors as well as the Board of Management for their support, encouragement and advice.

The greatest strength of the Group has always been its human resource – a skilled and qualified base of internal expertise which has achieved many a milestone. I call upon my colleagues at Aitken Spence to continue to share the passion and spirit with which we have achieved so much in the past.

The strongest endorsement we can make of Sri Lanka is to reiterate emphatically that Aitken Spence is here to stay; a commitment made 143 years ago by our founders. I look forward to the exciting opportunities that await us as a corporate and as a country.



J.M.S. Brito

Deputy Chairman and Managing Director

27th May 2011